Mission Product Holdings Inc. v. Tempnology, LLC

U.S. Supreme Court – being argued 2/20/19

Issue Presented: Whether, under Section 365 of the Bankruptcy Code, a debtor-licensor's "rejection" of a license agreement—which "constitutes a breach of such contract," 11 U.S.C. § 365(g)—terminates rights of the licensee that would survive the licensor's breach under applicable non-bankruptcy law.

The common fact pattern being addressed: a licensee licenses a trademark from a licensor and the licensor files for bankruptcy protection. When the debtor-licensor exercises its rights under the Bankruptcy Code to "reject" (*i.e.*, breach) the trademark license, what are the licensee's rights?

The backstory:

***Lubrizol*:** In 1985, in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*, the Fourth Circuit held that when a debtor licensor rejected an intellectual property license, the licensee lost the ability to use the licensed copyrights, trademarks, and patents. Under *Lubrizol*, a licensee in this position could assert a claim for damages against the licensor's bankruptcy estate for the rejection of the license, but it had to immediately cease use of the licensed IP. That limited remedy left those IP licensees who had invested significant capital to develop their business in reliance upon another entity's IP at substantial risk.

Bankruptcy Code § 365(n): After *Lubrizol*, Congress amended the Bankruptcy Code to address this harsh result and added § 365(n) to the Bankruptcy Code to permit licensees to continue to use intellectual property after rejection, provided that they meet certain conditions, including provided that the licensee had the right to continue to use the intellectual property under applicable non-bankruptcy law. However, while Bankruptcy Code § 365(n) provided that "intellectual property" includes patents, copyrights, and trade secrets, it did not mention trademarks.

The split: Since the 1988 amendment to the Bankruptcy Code, some bankruptcy courts have inferred that Congress intended to include trademarks in § 365(n) as it did with other types of intellectual property, to avoid the application of the harsh rule in *Lubrizol*. Others have held that a debtor-licensor's rejection of a trademark license terminates the licensee's rights to the trademark.

Examples of the split:

a) the 2012 Seventh Circuit Court of Appeals case of *Sunbeam Products, Inc. v. Chicago American Mfg., LLC* (Bankruptcy Code § 365(n) did not affect trademarks one way or the other, because trademarks were not included in the Bankruptcy Code's definition of "intellectual property." Rather than relying on § 365(n), the Seventh Circuit referred to Bankruptcy Code § 365(g), which provides, among other things, that the rejection of an executory contract such as an IP license "constitutes a breach" of that contract and, because a rejection constitutes a breach under § 365(g), the non-breaching party's rights are reserved under the agreement and rejection of the license did not abrogate the non-breaching party's contractual right to continue to utilize the licensed trademarks); with

b) the 2018 First Circuit Court of Appeals case of *Mission Product Holding, Inc. v. Tempnology, LLC* (Rejection of a trademark license by the debtor-licensor terminates the licensee's rights to the trademark license because the protections of § 365(n) do not extend to trademarks.)

Why the Mission Products decision is important: If the Supreme Court decides that the protections of § 365(n) do not apply to trademarks, trademark licensees will need to very carefully consider their options and the effect a licensor's potential bankruptcy filing could have on their business before entering into a license agreement, as a licensee that makes a significant capital investment or bases its business in reliance upon the use of a third party's trademark could be decimated if the licensor files for bankruptcy, rejects the license, and the licensee's rights to use the trademark are terminated.